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11. (U) This cable contains the Japan Economic Scope from May 11, 2007.

2.(SBU) Table of Contents

- 13. Keidanren DG on Mideast Trip, FTAs and Upper House Elections
- 14. Advisory Committee's Recommends Joint Studies for a U.S. -- Japan FTA
- 15. Tokyo Uneasy on New WTO Paper on Agriculture
- 16. Japan Still Heavily Dependent on Oil from Middle East.
- 17. Beef Audits to Start May 14
- 18. Health Ministry Backpedals on Flawed BSE Test?
- 19. Regulatory Reform Working Groups Set to Meet in Tokyo
- 110. Abe's Downward Spiral Spurs Reform Efforts
- 111. Deregulation Leads Private Firms to Offer Trade Insurance
- 112. The New Coop Law Goes into Effect this Summer
- 113. Jobs Galore in Central Japan
- 114. Slow Growth of Kansai Economy in 2006, but the Gap in SMEs to Grow
- 115. New Chairman of Kyoto Chamber of Commerce and Industry
- 116. Microsoft Committed to Becoming Local Company in Hokkaido
- 117. Bye, Bye, Kei Igawa
- 118. Red Sox Japanese Imports Doing Better

13. (SBU) Keidanren DG on Mideast Trip, FTAs and Upper House Elections  
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Just back from the Mideast having arranged Keidanren's massive participation in PM Abe's stops in Riyadh, Dubai, Qatar, Kuwait and Cairo, Keidanren Director General Nakamura described his first trip to the region as "mind-boggling." The heat, the religiosity, the perceived low native work-ethic, the enormous contrast in development across the region: all provided points for astonishment. Nakamura reported that the 100+ Japanese executives who accompanied the PM never met a local businessman - their meetings took place with government officials only. Consequently, although impressions were vivid, the nature and pace of the trip -- five stops in as many days; only 11 hours on the ground in Cairo, for example -- led to no noteworthy commercial development.

Nakamura told EMIN on May 10 that he is putting a great deal of effort recently into the Japan-Australia FTA, including working with politicians and industry associations on the question of agricultural reform. When asked what the outlook was for reform

of Japan's agricultural sector, however, Nakamura said the prospects were "hard to see." He bluntly reported that Keidanren has done nothing to build support with politicians or other interest groups for its proposed U.S.-Japan FTA. On July's Upper House election, Nakamura compared the current campaign unfavorably with France's recent elections. There, the focus inspiring had been on the future competitiveness of France. In Japan, there is nothing but a dismal debate over disparities: gaps in income or between rural and urban areas. He described the LDP's campaign as lackluster, but the opposition DJP's was even worse, with party leader Ozawa representing nothing but an image of "old Japan." (ECON: Hans Klemm)

14. (U) Advisory Committee's Recommends Joint Studies for a U.S.  
-- Japan FTA  
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The Subcommittee for the Council on Economic and Fiscal Policy (CEFP) studying Japan's strategies for bilateral / regional trade agreements and agriculture reform issued an interim report on May 18. The report encourages the government to accelerate trade negotiations and reflects a strong sense of concern about Japan's slow progress due to the desire to protect domestic farmers. The report recommends joint studies on a U.S.-Japan Free Trade Agreement, urging such an agreement extend beyond market access and include investment, services, standards and certifications, and transnational movement of persons. It urges the agriculture sector to enhance productivity particularly on rice, wheat and pork to better compete against U.S. imports. It also recommends revising the minimum access system for rice and abolishing the gate price system (currently used for pork), in which importers must pay the difference between the shipment's value and the minimum price set by the government.

TOKYO 00002177 002 OF 007

The KORUS FTA and South Korea's recent negotiations with the EU seemed to have sparked the Council's concern. As one analyst pointed out, the report recommends "swift preparations" for an FTA with the EU while it only calls for "joint studies" for an FTA with the United States. In either case, reaching an agreement with ASEAN is still the top priority.

In addition, the report urges the government to conclude higher levels of trade liberalization than past agreements and recommends discussions on eliminating tariffs that are below 10 percent and reducing excessively high tariffs.

On agriculture, many of the measures are concentrated on consolidating farmland, including, among others, an option to exchange idle land for stock, reviewing farmland tax and zoning regulations, and a new system that would allow farmers to lease fields for terms of at least 20 years. Measures to enhance the number of business-minded farmers, and a proposal on giving foreign farm workers resident status are also put forth. Foreign Minister Aso reportedly distributed an EPA "roadmap" at the full CEFP on May 9 that showed the GOJ studying free trade agreements with the United States and EU as "future items," but refrained from citing any details as to how negotiations should proceed.

At a Diet session the same day, Agriculture Minister Matsuoka was critical of the recommendation to reduce tariffs, expressing concern that it could work as a disadvantage for Japan in the WTO negotiations. To what extent the proposals will be reflected in the government's economic and fiscal policy guidelines due in June still remains to be seen, especially with the elections looming in July. (ECON: Ryoko Nakano)

15. (U) Tokyo Uneasy on New WTO Paper on Agriculture  
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Like other key WTO members, Japan is uneasy about the paper on agricultural trade liberalization drafted by Agriculture Commission Chair Falconer and released on April 30. The draft is being criticized by most member countries, because it suggests

limiting the number of sensitive farm products to five percent of the total number of tariff lines - well below Japan's proposal. Agriculture Minister Matsuoka has said that he cannot accept and has reportedly agreed with Indian Trade Minister Naht that the paper too much favors agricultural exporters over importers. A contact at Japan Agricultural Cooperatives (JA), the country's largest farming organization, known for its strident protectionist views, shared the same views. He told us he was especially concerned that Falconer's draft did not give any details on tariff caps.

A MOFA official did not seem too worried about the draft. Noting the upcoming G-6 meeting in Paris, he quipped that Falconer must be doing his job if all the parties are unhappy. (ECON: Ryoko Nakano)

16. (U) Japan Still Heavily Dependent on Oil from Middle East  
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The Agency for Natural Resources and Energy (ANRE) has announced crude oil import trends for Japanese fiscal year 2006. Total imports amounted to 238.5 million kiloliters (1.5 billion barrels), 4.2 percent less than last year.

Imports from the Middle East declined slightly for the first time in four years, although the region still meets 88.9 percent of Japanese oil demand. Imports from Russia increased by 218.5 percent as ExxonMobil's Sakhalin One oil comes online.

Imports from Africa declined slightly, although Angola's exports to Japan more than doubled and Equatorial Guinea's were up by 142.8 percent. The total share of Japan's oil imports coming from Africa still comprises four percent of Japan's total. One other area with a significant decline in imports was south Asia, particularly Vietnam and Brunei. A breakdown of Japan's 2006 oil imports is attached. (ECON: Joan Siegel/Eriko Marks)

17. (SBU) Beef Audits to Start May May 14  
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TOKYO 00002177 003 OF 007

Progress grinded forward slowly and then screeched to a halt over Japan's Golden Week holidays to make it easier for U.S. beef exporters to sell in Japan -- before grinding slowly forward again after the two governments worked out another deal on audits of U.S. slaughter facilities.

The Japanese government agreed on May 8 to audit all U.S. beef plants in accordance with Agriculture Secretary Johanns' understanding of his earlier agreement - arrived at before the April 26-27 Bush-Abe Summit -- with his Japanese counterpart, Agriculture Minister Matsuoka.

Japan's Health Ministry (MHLW) had balked at the earlier agreement and let us know on May 1 during a lull when much of Japan's government was shut down for holidays.

MHLW told us May 1 that, as described, the ministry's inspectors would not be able to assess U.S. meat producers' Japanese export programs if the plants did not currently export to Japan, and therefore inspectors would have to continue 100 percent box by box inspection of beef coming into Japan from these plants. A week later a satisfactory solution was worked out to allay these concerns after a series of meetings and telephone calls.

The Embassy is working with the Health and Agriculture Ministries on a schedule for the audits. About eight Japanese inspectors on three teams will cover up to 30 U.S. plants, ending on May 26 in Omaha, where the two sides will work on a joint press statement. (ECON: Nicholas Hill)

18. (SBU) Health Ministry Backpedals on Flawed BSE Test?  
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Japan's onerous requirements for U.S. beef importers may have

been predicated on flawed lab tests. After months of waiting, a research team of the Health Ministry reported this week that mice injected with brain tissue from 21-month and 23-month-old cows believed to be infected with BSE did not come down with the disease themselves.

The results call into question a determination Japanese health officials made in 2003, in which they cited BSE as the cause of death of the two cows in question -- the only under 30 month-old cows in the world for which BSE has ever been identified as the cause of death.

The determination became the basis of the Japanese government's insistence that no U.S. beef from cows over 20 months old be sold in Japan.

The results made available this week and to be issued formally in June by MHLW have been held up for months. Only after prodding from Kazuyoshi Akaba, a Komeito Party member from Hyogo Prefecture, during a Budget Committee hearing in March, did pressure begin to mount for release of the data. Asahi has a team following the developing story.

As a result of the original determination that cows as young as 20 months old could be tested for BSE, manufacturers in Japan of BSE testing kits have made large profits in recent years conducting blanket testing. Two former members of Japan's independent Food Safety Commission Prion Sub Committee allegedly profited handsomely from offering their expertise to BSE testing kit manufacturers. (ECON: Nicholas Hill)

#### ¶9. (SBU) Regulatory Reform Working Groups Set to Meet in Tokyo - -----

Japanese and U.S. negotiators will meet on the week of May 14 to iron out the draft text of the Report to Leaders. Once completed, the Report marks the end of the annual cycle in the two governments' Regulatory Reform dialogue. Working groups covering cross sectoral issues; information technology/IPR; medical devices and pharmaceuticals; and financial services are set to meet in Tokyo. The telecommunications working group will negotiate their text by DVC at a date to be determined. For more detailed information regarding the talks, please contact us directly. (ECON: Nicholas Hill)

#### ¶10. (SBU) Abe's Downward Spiral Spurs Reform Efforts -----

TOKYO 00002177 004 OF 007

A longtime member of the Council for the Promotion of Regulatory Reform (CPRR) told EMIN she was encouraged by the progress the committee has been able to make over the last two months. Previously decidedly downcast about the hope for meaningful reform under the Abe administration, our contact cited three factors that have contributed to recent progress. First, several new members on the committee are very close to the Prime Minister.

Second, Abe's downward spiral in the polls had created a sense of urgency in the Prime Minister's offices that "something" had to be done.

Finally, she said Chief Cabinet Secretary Yasuhisa Shiozaki, known for being particularly astute in economics, was now himself involved in spurring on economic reforms. However, despite this new reform imperative, agricultural issues are still too sensitive and she predicted little progress would be made in the sector. Instead, she pointed to the financial sector, including a possible overhaul of firewalls separating the banking and securities industries, as an arena where the Abe Administration could demonstrate its reform credentials.

Our contact said that the recent tightening of rules pertaining to amakudari ("decent from heaven"), which would reduce influence peddling by making it more difficult for retiring senior officials to take jobs at companies regulated by their former

ministry, is another example of recent progress. She stated that, so great was the sense of urgency within the Kantei to project an image of reform that Minister of State for Regulatory Reform Yoshimi Watanabe announced the new amakudari regulations without first getting buy-in from Ministry bureaucrats.

As a result, the regulations he announced were ultimately pulled-back and watered-down, but regulations are in place nonetheless. She said that "it was quite a pity" the originally aggressive stance had to be scaled back, but predicted the public "will be watching" to see if the new regulations are effective. (ECON: Sally Behrhorst)

¶11. (U) Deregulation Leads Private Firms to Offer Trade Insurance  
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Nipponkoa Insurance Co., Ltd., which has a tie-up with AIU Insurance of US AIG group, has announced that it now offers trade insurance. Previously, Nippon Export and Investment Insurance or NEXI, a government-backed entity, had a monopoly on trade insurance. It is estimated that private sector entry into this market will lower costs by 10-40 percent.

Under the slogan "what the private sector can do, let the private sector do," a discussion panel within METI compiled a report in December 2004 suggesting relaxing the regulations on trade insurance businesses and opening the market to the private sector. It also suggested that NEXI should strictly focus on those cases that are economically unfeasible for private companies to offer insurance. In April 2005 the market was partially opened, mainly for services focusing on SMEs. In April 2007 the trade insurance market for large companies was opened.

Nipponkoa Insurance Co., Ltd. is the fifth Japanese private insurance company to offer trade insurance covering both country risk and commercial risk, joining Tokio Marine & Nichido Fire Insurance Co. (tie-up with Dutch Atradius NV), Sompo Japan Insurance Inc. (French Euler Hermes), Mitsui Sumitomo Insurance Co. (French Coface) and Aioi Insurance Co. (French Coface). Foreign companies offering trade insurance include Zurich Insurance and Federal Insurance.

The private companies have set their premiums lower than the premiums set by NEXI. In response to the competition, NEXI is considering lowering its premiums as well. Estimates in the media suggest that costs will come down 10-40 percent. (ECON: Eriko Marks)

¶12. (U) The New Coop Law Goes into Effect this Summer  
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A bill to amend the Consumer Livelihood Cooperative Society Law was enacted on May 8, subsequent to passage by the House of

TOKYO 00002177 005 OF 007

Councilors or Upper House on April 20. The revised Cooperative Law (or "Seikyo" Law) will enable affected cooperatives to expand part of its business operations beyond the current geographical restrictions. Cooperative insurance ("Kyosai") affected will also face stricter regulations in order to beef up policyholder protection. (ECON: Eriko Marks)

¶13. (U) Jobs Galore in Central Japan  
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Reflecting the continuing manufacturing boom in Central Japan, the ratio of job offers to job seekers passed two to one in Nagoya's Aichi prefecture for the first time since May 1992. Aichi's 2.02 figure in March (up 0.08 from February) was far and away the highest in Japan, a position the prefecture has now held for 38 consecutive months. Reflecting the prefecture's economy, there were 3.7 jobs for every skilled factory worker seeking employment, but the ratio for office workers was only 0.6. Within Aichi, Nagoya City was the strongest district at 2.61.



In comparison, the ratio for all of Japan stood at 1.03, off a shade from 1.05 in February. Among the top five of Japan's 47 prefectures were Aichi neighbors Shizuoka, with the third strongest ratio at 1.49, and Mie, fifth strongest at 1.43. To the north of Tokyo, Gunma (1.52) and Tochigi (1.48) rounded out the top five. Tokyo itself stood at 1.39. Tied for the worst location for job seekers were Aomori, at the extreme north end of Honshu, and Okinawa, both with ratios of 0.43.

The shortage of labor continues to trouble many major manufacturers post has spoken to, but it appears to be something they've learned to live with. The jobs-to-job seeker ratio in Aichi has been over 1.5 (or conversely less than two-thirds of a potential worker for every job needing to be filled) for nearly three years.

One reason firms can thrive in the face of such numbers is the ongoing decrease in the region's manufacturing labor intensity. For example, at Nippon Steel's Nagoya Works, a major supplier to the auto industry, crude steel output per employee has risen about 340% since 1990. (Nagoya: Dan Rochman)

¶14. (U) Slow Growth of Kansai Economy in 2006, but the Gap in SMEs to Grow  
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According to a recent study by Nikkei Shimbun, the Kansai economy continued growth in 2006. Exports to China, large-scale capital investment, and consumption boomed, and employment figures also improved due to strong performance by key Kansai economic lynchpins such as Matsushita Electric, and Sharp. A Bank of Japan (BOJ) official in the Sales Division of the Osaka Branch analyzed that the capital investment in 2007 would continue to grow in the region at a rate of approximately 2.7 percent. New college graduate hiring surged more than 13 percent over 2006, exceeding the national average of 9.8 percent.

On the other hand, bankruptcies among SMEs are on the rise. SMEs subcontractors of booming large firms are growing, but small players in sunset industries were hit by price pressure from cheaper mainland imports. An Osaka City Credit Union official financing mainly SMEs added that future interest rate hikes by the BOJ will hit Osaka SMEs particularly hard, and 63 percent of Osaka City Credit Union customers are apprehensive of the negative impact of any increase in interest rates. (Osaka-Kobe: Phil Cummings / Naomi Shibui)

¶15. (U) New Chairman of Kyoto Chamber of Commerce and Industry -  
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The Kyoto Chamber of Commerce and Industry (Kyoto CCI) announced that Yoshio Tateishi, Chairman of OMRON, will become the next chairman of the chamber starting May 11. Current chairman Junichi Murata has been in the position for two terms since 2001. Murata greeted President Bush during his visit to Kyoto in 2005. The pro-American Murata was a champion of new industries and Kyoto tourism promotion, and is being hailed by local newspapers as one of the most successful chairmen in the history of Kyoto CCI.

Tateishi is the third son of OMRON (former Tateishi Electric Co.,

TOKYO 00002177 006 OF 007

Ltd.) founder and became the President of OMRON in 1987 following the first son of founder. He is a well-known business leader, who has promoted a "work-life balance" and introduced three months leaves for managers in his company, a first in Japan.

A Kyoto CCI official said that Murata and other CCI members were disappointed Kyoto did not become the main G-8 summit venue for 2008, and that the ministerial awarded to Kyoto was no consolation prize. He said that Tateishi's goal will be pushing for stronger growth of local SMEs, which make up 94 percent of the organization's membership. (Osaka-Kobe: Phil Cummings / Naomi Shibui)

16. (U) Microsoft Committed to Becoming Local Company in  
Hokkaido  
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On April 25, Microsoft Hokkaido invited over forty IT-related company representatives and local government officials for the opening of their new top floor office at the JR Tower Office Plaza in Sapporo Station. Darren Huston, CEO of Microsoft Japan and Corporate Vice President of Microsoft Corporation, opened the event by stating that Microsoft is committed to operating in Hokkaido as a local company. He explained that all employees at their Sapporo office are Hokkaido natives, and they plan to double the number of employees there with local hires. In addition, the new Microsoft office will make their conference space open to the public as a means of connecting with the local community.

Prior to the opening, Huston described to the Consul General the various corporate social responsibility programs Microsoft is conducting with Hokkaido authorities. For example, Microsoft is working with the city of Asahikawa to redevelop the website for the Asahiyama Zoo. The zoo, recently one of the most popular in Japan with more than 3 million visitors annually, desperately needed to revamp its online profile. Microsoft is providing Asahiyama Zoo with a state-of-the-art educational 3-D imaging technology free of cost and training local IT companies and Asahikawa city employees how to use it to promote the zoo more efficiently by themselves.

Huston views such projects as long-term investments for Microsoft.

Some Hokkaido locals, however, are puzzled about the offers of support since the concept of private-public partnerships has not yet penetrated the area. (Sapporo: Ian Hillman/Yumi Baba)

17. (U) Bye, Bye, Kei Igawa  
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The New York Yankees Japanese import is heading to the minors. Kei Igawa, picked up by the Yankees in a panic move after the Boston Red Sox signed Japan's premier starter, Daisuke Matsuzaka, over the winter, has flamed out. With an earned run average of 7.63, Igawa was unceremoniously sent packing, not to pitch in triple A ball, but in single A ball in Florida. In his last outing for the Yankees, Igawa blew a six-run lead as New York's collection of store-bought multi-millionaires lost to the lowly Seattle Mariners 15-11. (ECON: Nicholas Hill)

18. (U) Red Sox Japanese Imports Doing Better  
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Meanwhile, the Boston Red Sox continue to run away with the American League East, with a 22-10 record and six game lead in the division.

And the team's Japanese imports are doing better. Daisuke Matsuzaka has struggled recently, but he is getting enough run support to post a 4-2 record so far. In his last outing on May 10, he out-duelled Toronto's Japanese import, Tomo Ohka, 9-3, striking out eight and giving up only one run in seven innings. Earlier, over the Golden Week Holiday, Matsuzaka was hit hard by the Mariners, falling behind 5-0 in the first inning before the Red Sox bats came back to rescue him. The team won 8-7. In a separate development, Hideki Okajima, Boston's "other" Japanese import, won the American League Rookie of the Month Award in April. Since giving up a homerun on his first Major League pitch, Okajima has made 14 consecutive appearances without

TOKYO 00002177 007 OF 007

being scored on.

The Red Sox last week hired a full time interpreter for Okajima, in addition to Matsuzaka's interpreter, to handle all the press attention. Red Sox coverage in Japan's media continues to be extensive. (ECON: Nicholas Hill)

